

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2018/2019

BFN3034 – BEHAVIOURAL FINANCE
(SECTION B01)

15 OCT 2018
2.30 P.M. – 4.30 P.M.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This questions paper consists of 2 pages.
2. Answer **ALL** questions. The marks for each question are given in the question paper.
3. Please write your answers for all the questions in the answer booklet.

Answer ALL questions.

Question 1

- (a) Identify one behavioural bias or trait that is most exhibited from statement (i) to (iii) below.
- (i) Ali got involved with the portfolio process by researching some of their portfolio holdings. He has become overly attached to some holdings and only brought up information favourable to the holding. He looked for new information or distorted new information to support an existing view
(5 marks)
 - (ii) A football player scores four goals in FIFA world cup. More of his team mates start passing him the ball more often in the assumption he is 'on the ball'.
(5 marks)
 - (iii) You tend to accept the bet that a coin toss with a payoff of USD\$500 for tails. Compared with consider a gift of USD\$500 that is bundled with a bet that imposes a loss of USD\$500 if that coin toss comes up heads. What behavioural bias lead to different attitudes toward the bet.
(5 marks)
- (b) Describe utility theory used in traditional finance. Subsequently, discuss the complex risk functions observed in behavioural finance. You are required to show these three utility functions in a graph form.
(15 marks)
- (c) Choose any **ONE (1)** of the following to discuss the behavioural biases and its impacts on investment decision making. You may use an example to illustrate.
- (i) House money effect
 - (ii) Endowment effect
 - (iii) Self-control bias
 - (iv) Status quo bias

(5 marks)

(Total: 35 marks)

Continued...

Question 2

- (a) (i) Discuss the two conclusions of Shleifer model of noise trading.
(8 marks)
- (ii) Discuss the two main players in the Shleifer model of noise trading.
(10 marks)
- (b) (i) Discuss Allais paradox and give one example of this paradox.
(8 marks)
- (ii) Explain the key concepts of rationality assumption used in economics and finance field.
(4 marks)
- (Total: 30 marks)

Question 3

- (a) Discuss the important lessons that we can learn from prospect theory.
(5 marks)
- (b) Prospect theory was developed by Daniel Kahneman and Amos Tversky (1979), and it differs from expected utility theory in a number of important aspects. Discuss the differences between them.
(12 marks)
- (c) Define representativeness, availability bias, and anchoring bias and discuss their impacts in making financial decisions.
(18 marks)
- (Total: 35 marks)

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